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Recent Developments in the Canadian Economy: Fall 2012

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.	not available for any reference period
..	not available for a specific reference period
...	not applicable
0	true zero or a value rounded to zero
0^s	value rounded to 0 (zero) where there is a meaningful distinction between true zero and the value that was rounded
p	preliminary
r	revised
x	suppressed to meet the confidentiality requirements of the *Statistics Act*
E	use with caution
F	too unreliable to be published
*	significantly different from reference category ($p < 0.05$)

Recent Developments in the Canadian Economy: Fall 2012

By Cyndi Bloskie and Vivy Yelkovich, Analysis Branch

This **special edition article** in the *Economic Insights* series is designed to provide users with a concise, integrated summary of recent changes in output, employment, household demand, international trade and prices. It places recent movements in these economic data into context by highlighting the cumulative changes that have occurred subsequent to the recession of 2008–2009. Organized as a statistical summary of major indicators, the report is designed to facilitate ongoing assessments of the Canadian economy.

All of the output data presented in this report are consistent with those published in the historical revision to the Canadian System of National Accounts (CSNA12), released on October 1, 2012. All data are seasonally adjusted and expressed in current dollars unless otherwise stated.

Output and employment build on post-recession gains

Real output and employment advanced in the first two quarters of 2012, building on gains in 2010 and 2011. Real GDP grew 0.4% in 2012 Q2, following an increase of 0.5% in 2012 Q1. Since the onset of the recovery in 2009 Q3, real output has generally grown more rapidly than employment. At the end of 2012 Q2, levels of output and employment exceeded their pre-recession highs by 3.4% and 2.3%, respectively (Chart 1).

Among the G7 countries, Canada's post-recession recovery in output has been the strongest. Canada's peak-to-trough decline in real GDP was 4.6%, matching the decline in the United States. Since the trough, real GDP in Canada has expanded 8.5%, compared to 6.7% in the United States.[1]

Employment growth led by adult full-time positions

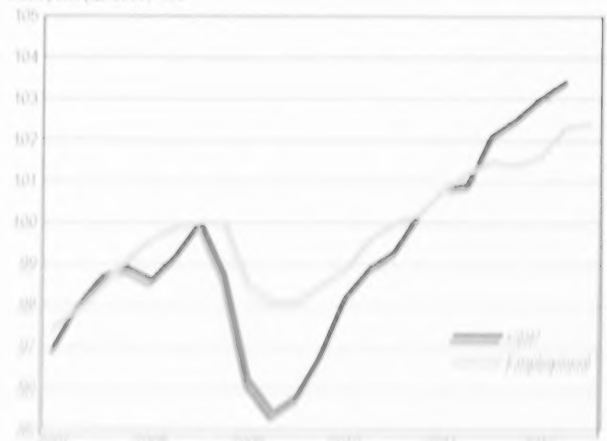
The first half of 2012 saw a sizable gain in the number of full-time jobs. Employment expanded by 193,000 in the first half of 2012, led by job growth in Quebec, Ontario and British Columbia. The gains were almost three times those recorded in the last six months of 2011.

In August of 2012 the economy recouped jobs lost in July and gained a further 54,000 jobs in September, primarily in full-time positions. The unemployment rate rose to 7.4% as more people entered the labour market. The unemployment rate has been generally stable over much of 2012 and down from the peak of 8.7% in August 2009 and remains 1 percentage point above the 6% average seen in 2007 and 2008.

Employment matched its pre-recession peak in January 2011. Since then, 338,000 jobs have been added to the national economy. All of this gain has been in full-time positions, as part-time positions have declined by 59,000.

The employment performance of younger and older workers has differed over the recovery. For youths aged 15 to 24, the full-time unemployment rate of 14.8% was the highest in 51 months, while the unemployment rate for those aged 25 and over stood at 5.8%, the lowest since December 2008. The youth unemployment rate rose to 15% by September, while the adult rate edged up to 6%. In the first two quarters of 2012, youth employment contracted and the size of the youth labour force expanded. As a result, youth employment has not yet recovered to its pre-recession peak in September 2008. By contrast, adult employment recovered by April 2010 and has continued to expand. Employment among workers aged 55 and over increased substantially during the recovery—these workers accounted for 21.3% of adult employment in the first half of 2012, up from 18.4% in 2008 (Chart 2).

Chart 1
Output and employment



Source: Statistics Canada, CANSIM tables 380-0064 and 282-0087.

1. United States data are from the U.S. Bureau of Economic Analysis, http://www.bea.gov/national/index.htm#gdp.

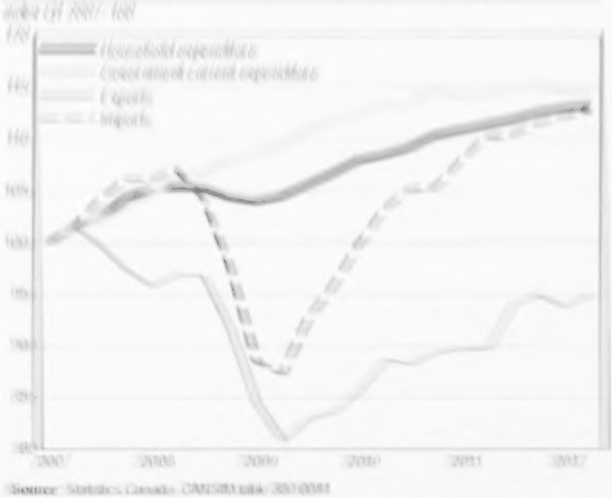
Increase in business investment accounts for recent GDP gains

The growth in real GDP in recent quarters was led by increases in non-residential business investment. Non-residential investment spending, which has expanded in eleven of the last twelve quarters, recovered to its pre-recession level in 2011 Q3, and has since gained a further 6%. Recently, machinery has led the growth in investment, increasing by 11.7% over the past four quarters. In contrast, investment spending on machinery and equipment was flat over the same period. Investment in intellectual property products, which includes spending on research and development, declined by over 25% during the recession, and now stands 16% below its pre-recession peak. Housing investment began to decline in 2008 Q3, and recovered to its pre-recession peak by 2012 Q1. Investment in housing increased 3.7% in 2012 Q1, and retreated by 0.2% in the second quarter (Chart 3).

Household expenditures on goods and services declined modestly during the recession, and have increased steadily during the recovery, with growth slowing in the first half of 2012. Government spending also accelerated during the recovery but has since levelled off, retreating 0.5% in the first quarter and remaining flat in the second (Chart 4).

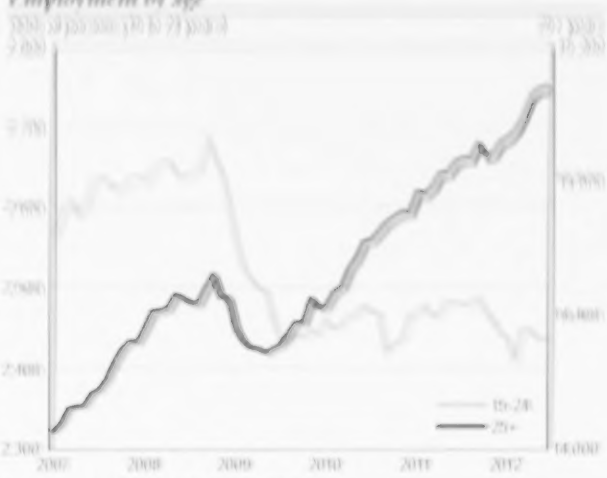
The post recession period has been characterized by changes in the structure of Canadian trade. Canada's imports have outpaced exports since 2009 Q3. Exports began to decline before the onset of the recession, and have yet to recover to levels observed in 2007. From the beginning of 2007 through to the first half of 2012, the volume of exports declined from almost 35% to 31% of GDP, while the volume of imports increased from nearly 32% to 34% of GDP.

Chart 4
Major expenditure and trade components of GDP



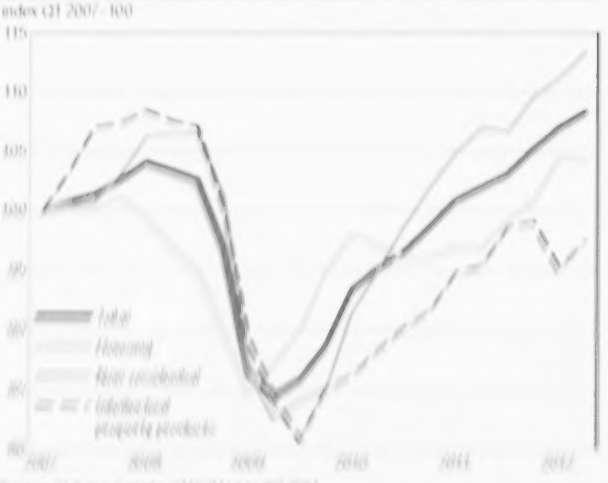
Source: Statistics Canada, CANSIM table 380-0081

Chart 5
Employment by age



Source: Statistics Canada, CANSIM table 282-0087

Chart 3
Components of business investment in GDP



Source: Statistics Canada, CANSIM table 380-0084

Following annual trade surpluses since 1981, Canada posted trade deficits in 2010 and 2011 and in the first two quarters of 2012.

Changes in mining, oil and gas production make substantial contributions to output growth

On an industry basis, the recent growth in GDP in 2012 Q2 was driven by increased production in mining and oil and gas extraction industries, construction industries and the public sector (public administration, health and education). Recent fluctuations in mining, oil and gas production largely mirror the international business cycle. Real output in this sector began to decline just prior to the global downturn. Growth resumed at the end of 2009, in line with the global economic recovery, with

[illegible]

[illegible]

[illegible]

Housing starts recovered to pre-recession peak

Housing starts were buoyant in the first half of 2012, increasing almost 26% from January to a post-recession peak of 252,000 units in April (at annual rates). Housings starts eased back over the summer to 220,000 units in September (Chart 6).

In 2009, housing starts fell to less than half of their pre-recession average of 220,000 units over 2007 and 2008. This was the lowest level since April 1996. With ground-breaking on new homes currently at high levels, housing starts have recovered to their pre-recession average.

Multi-family urban homes have led the growth in housing starts in 2012, particularly in Quebec, Ontario, Alberta and British Columbia. While construction of condominiums in Toronto and Montreal slowed in May and June, construction accelerated in Vancouver. Single-family urban starts have been fairly steady since September 2010, averaging near 68,800 units per month (at annual rates) in the first half of the year (Chart 7).

Existing home sales were supported by an early spring which accelerated buying in March and April and coincided with

[illegible]

[illegible]

Source: Statistics Canada, CANSIM table [illegible]

Chart 6
Housing starts – at annual rates

[illegible]

Source: Statistics Canada, CANSIM table 027-0054

[illegible]

[illegible]

Source: Statistics Canada, CANSIM table 027-0051

anticipated changes to mortgage rules. This led to the highest level of sales for the January to June period since 2007. Nevertheless, the average resale price began to decline heading into spring, reaching a national average of $376,380 by September.[2]

Retail spending up significantly from recession lows

After steady gains in 2010 and 2011, retail sales grew 0.2% in the first quarter of 2012 and then retreated 0.9% in the second, as demand declined in every region but the prairies. An early spring pulled sales of outdoor equipment and clothing forward, which then tapered off in the second quarter. In volume terms,

2. Average resale house price data is from the Canadian Real Estate Association http://www.crea.ca/canadian-home-sales-remain-lower-levels-september

Retail sales have trended up since the last quarter of 2009, and are now 9.7% above their previous trough in late 08.

The sale of new motor vehicles were hard hit in the last half of the year, with the number of units sold almost returning to pre-recession levels. The seasonally unadjusted number of units sold peaked in May 2008 at 188,133, and over the next eight months declined by 58% before recovering in 2009. New motor vehicle sales rose 9.3% and 6.2% year over year in the first two quarters of 2012 respectively (Chart 9).

Canada's merchandise trade deficit grows

For the first six months of 2012, imports expanded by 4.1%, with all major commodity groups posting increases except industrial goods. Exports fell 5.2%, as every major commodity group contracted with the exception of autos. This resulted in a $7.0 billion trade deficit for the first half of the year. Heading into the summer, both imports and exports began to decline, falling 5% and 3.7%, respectively, to August. This led to a narrowing of the trade deficit in August to $1.3 billion.

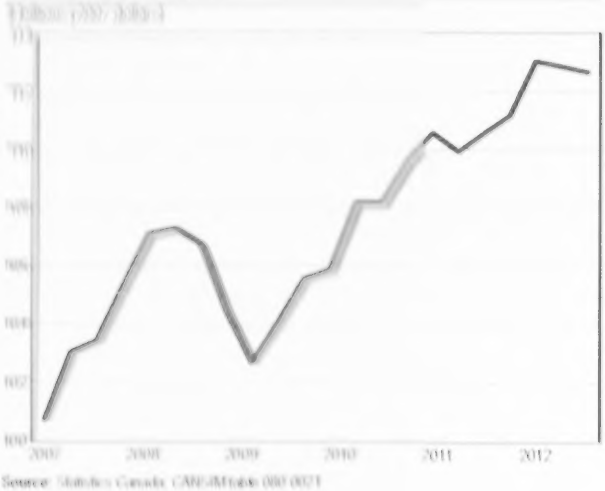
The growth in imports has outpaced the growth in exports following the recession. While imports returned to pre-recession levels by October 2011, exports continue to lag. Shares of imports to the United States increased slightly in the first half of 2012 from 2011, while shares of exports were steady, as trade with Europe slowed.

By commodity group, energy continues to have the largest trade surplus, followed by forestry, industrial goods and agriculture. Machinery and equipment maintain the largest trade deficit, followed by other consumer goods and autos. As a share of exports, energy edged out industrial goods in the first half of the year, rising from just 8% of total exports in 1999, to over 25% in 2012. Industrial goods exports expanded from 16% to 24% over the same time period. The share of exports accounted for by autos, meanwhile, has declined from a high of 16% in 1990 to 14% in 2012. At 13% in 2012, machinery and equipment continues to account for the largest share of imports, down from 18% in 1988.

In volume terms, exports declined slightly in the first half of 2012, even as export prices fell 7% led by a decline in energy prices. Despite the decline in energy exports, the volume of all energy exports expanded by 6.0%. The volume of auto exports in June 2012 reached 2001 levels. However, the volume of total exports has still not recovered to its pre-recession high (Chart 10).

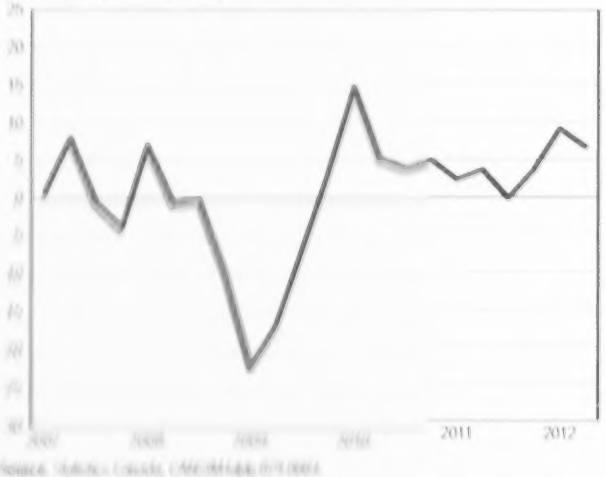
Meanwhile, total import volume recovered to peak levels by June 2011 and by June 2012, were up another 3.2%, with a similar gain in prices. Machinery and equipment import volumes had recovered by early 2011 and ended June 2012 up another 1.3%. With import prices rising in the first half of 2012, the terms of trade declined 7%. By August, with import prices and export prices easing, the terms of trade declined a further 0.4%.

Chart 8
Volume of retail trade



Source: Statistics Canada, CANSIM table 080-0021

Chart 9
New motor vehicle sales by units (seasonally unadjusted data)



Source: Statistics Canada, CANSIM table 079-0064

Chart 10
Volume of merchandise trade and terms of trade

Source: Statistics Canada, CANSIM table 228-0053

Consumer prices show little overall change in the first half of 2012

Consumer prices were essentially flat for the first half of the year, as lower costs for shelter and transportation more than offset slight increases for the other components. After little change in 2009, the annual pace of inflation was 1.8% in 2010 and 2.8% in 2011.

The earlier and warmer spring in most of the country lowered electricity demand and gave a boost to seasonal clothing prices. Clothing prices, overall, began to pick up in 2011, after having been in decline for the past decade. Gasoline prices, which retreated in 2009, posted steady gains for the next two years and almost reached their pre-recession peak level in April. Conversely, the price of autos still remains significantly below pre-recession levels. Low interest rates have dampened mortgage interest costs, which after peaking in January 2009 steadily declined until April 2011. They increased slightly at the start of the year, but fell to the lowest level in 5 years in June.

On a broader scale, durable goods prices continued their downward trend in the first half of 2012. With the exception of a slight increase in 2010, prices have been flat or falling since 1998. Part of this is attributable to large long-term declines in the prices of technology goods such as digital computing equipment and devices, photographic equipment and home audio and video equipment. Semi-durable goods prices, which have been flat or falling since 2002, rose in 2011 and continued to rise into 2012, supported by the pick-up in clothing prices. Non-durable goods, aided in part by rising gasoline and food costs, have increased almost continuously since 1962, with increases continuing into 2012. The prices of many services, including cablevision and satellite services, and home and auto insurance services, have also posted steady long-run increases.

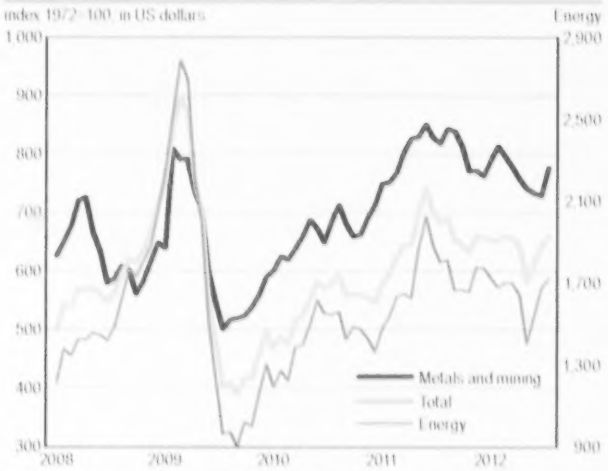
Decline in commodity prices led by energy

Commodity prices fell 11% in the first half of 2012, ending June at the lowest level in 21 months. Energy led the decline, as crude oil prices returned to their levels of the third quarter 2010, and natural gas prices fell to 11-year lows. Metals and mineral prices also retreated, with gold losing almost 10% in value from the September 2011 peak to end June below $1,600 US dollars per troy ounce, and aluminum prices dropping 18% in the past year. Forestry prices received a boost from a pickup in softwood lumber prices, while agriculture prices gained on rising canola and drought-driven corn and soya prices. Energy prices rallied 22% from July to September while prices for metals and minerals continued to retreat in July and August but rebounded in September. Metals and minerals had returned to pre-recession prices by early 2011. Energy prices, however, at their recent high in April 2011, were down 27% from their pre-recession peak (Chart 11).

Recent changes in equity prices reflect movement in mining and metals

Toronto stock prices fell 3% in the first six months of 2012, dampened by declining commodity prices. After rallying slightly in June, stock prices remained 18% below their recent peak in

Chart 11
Commodity price index

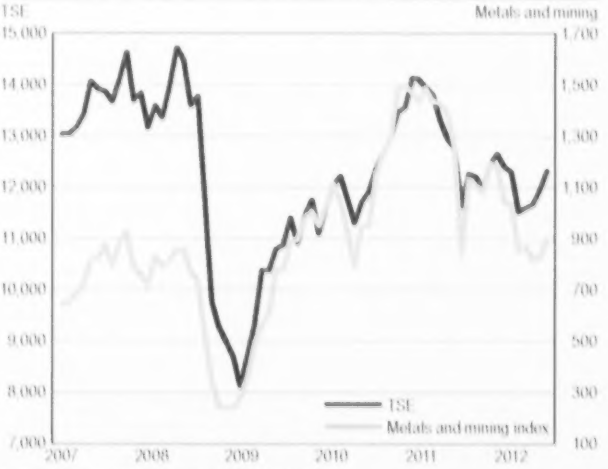


Source: Statistics Canada, CANSIM table 176-0075

February 2011 (which were off only 4% from the pre-recession peak in May 2008 after which stock prices lost 45% of their value in just nine months). Stock prices rallied over the summer, ending September 6% above June levels, led by energy. Metals and mining retreated 17% since the start of the year, followed by declines in energy and materials, although all have rallied in recent months. The metals and mining index has closely tracked the overall index since the trough in 2009. Telecommunications and utilities were essentially flat, while stock prices related more directly to domestic market conditions such as consumer stocks and financials led growth (Chart 12).

The Canadian dollar ended June 2012 at $0.973 USD, the lowest level against the greenback in 22 months. The dollar peaked at $1.047 in July 2011, surpassing the pre-recession high in November 2007 of $1.034. In August and September 2012, the dollar returned to parity.

Chart 12
Stock market



Source: Statistics Canada, CANSIM table 176-0047

Non-residents remain net lenders

Business fund raising picked up to start the year as firms increased new bond issues. After steadily contracting through 2009 and 2010, short-term business credit began to recover in 2011, and further advanced 5.6% in the first six months of the year, returning to the highest level since May 2009. By August, short-term business credit still remained 5% below its peak value in December 2008. Residential mortgages continued to lift household credit with the monthly growth rate outpacing the growth in consumer credit since May 2010.

Non-residents continued to acquire Canadian debt securities, predominately government bonds, as they have since the fourth quarter of 2008. Businesses and households continued their long-term trend of being net lenders and net borrowers respectively, while the government sector remained a net borrower (Chart 13).

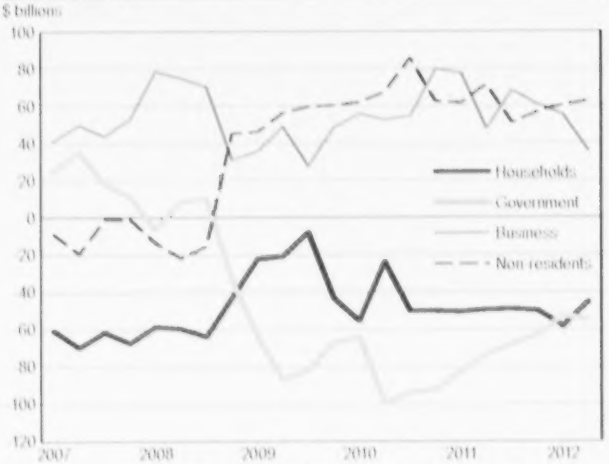
Regional data highlight recovery in manufacturing and growth in housing for the first half of 2012

In Ontario, manufacturing sales rebounded 2.7% in 2010 Q2, supported by a steady demand for autos and a recovery in machinery sales, as sales of non-durable goods posted their third consecutive quarterly decline. Overall manufacturing sales in the province have not regained the levels of five years earlier (Chart 14).

Housing starts in Ontario have been brisk, and in April returned to the pre-recession peak level of August 2008. Housing cooled slightly from April to June as ground-breaking on multiple units in Toronto eased. Retail sales dipped in the second quarter after 12 straight quarterly gains, as demand retreated for furniture, building materials and garden equipment following an unseasonably early spring.

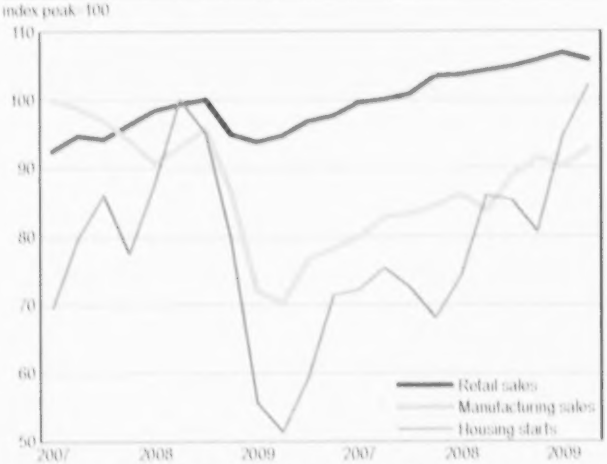
Falling from a recent high of 9.4% in June 2009, the unemployment rate in Ontario declined to 7.4% in March 2012, and then rose slightly to 7.7% by June. Ontario saw a net gain of 28,500 jobs for the first six months of the year, led by gains in manufacturing, education and finance, insurance and real estate services.

Chart 13
Net lending by major sector



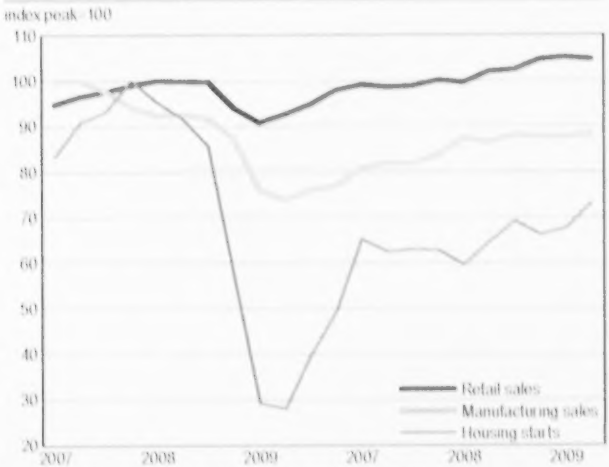
Source: Statistics Canada, CANSIM tables 380-0072, 380-0076, 380-0079, 380-0082

Chart 14
Ontario



Source: Statistics Canada, CANSIM tables 080-0020, 304-0015, 027-0051

Chart 15
British Columbia



Source: Statistics Canada, CANSIM tables 080-0020, 304-0015, 027-0051

Housing starts in British Columbia continued to improve in the first six months of the year, returning in June to a level not seen since 2007, supported by ground-breaking on multiple units in Vancouver. Despite the recent gains, however, quarterly housing starts remain below pre-recession levels. Retails sales were quick to recover in 2009, and after steady growth have now been flat or falling since March, as demand for autos and furniture was offset by lower sales of food, clothing and general merchandise (Chart 15).

Manufacturing sales in British Columbia grew 0.7% in the second quarter, after being flat in the first. Lumber sales received a boost from a recovery in housing in the United States and demand strengthened for non-metallic minerals. However, neither lumber nor non-metallic minerals sales have returned to pre-recession levels. With over 28,000 jobs created,

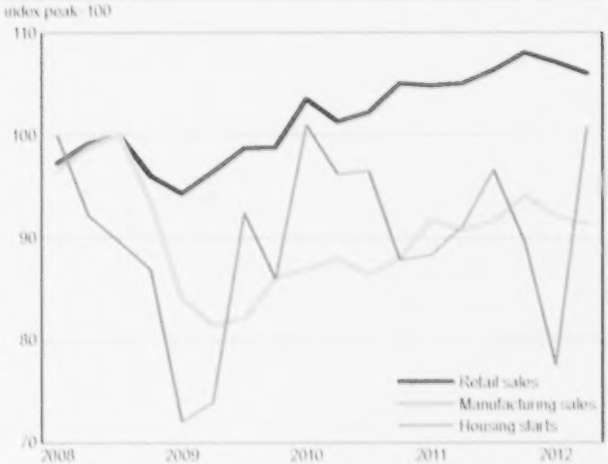
the unemployment rate in British Columbia fell from 6.9% in January to 6.6% in June.

Ground-breaking on new homes in Quebec in the second quarter set the fastest pace of any region, led by multiple units, which hit the highest level in April since September 2007. Overall housing starts also returned to its pre-recession peak for the second time in five years. Retail sales declined in four out of six months to June as consumers reined in spending on electronics, food and health care products. After shedding almost 72,000 jobs in the last six months of 2011, Quebec generated 79,500 jobs in the first half of 2012. Both manufacturing and health more than recovered jobs lost, while construction ramped up hiring in tune with rising housing starts. Manufacturing sales retreated in both the first and second quarters of 2012 as demand fell for primary metals, food and aerospace products, and have not yet returned to pre-recession levels (Chart 16).

Retail sales in the Atlantic provinces contracted in both the first and second quarter of 2012, following fairly steady gains since 2009. Housing starts rebounded in the second quarter and have twice surpassed their pre-recession peak in 2008. Manufacturing sales retreated in both quarters but have almost regained their pre-recession levels, supported by non-durable goods industries. Job gains in Newfoundland and Labrador and New Brunswick at the start of the year were more than offset by job losses in Prince Edward Island and Nova Scotia (Chart 17).

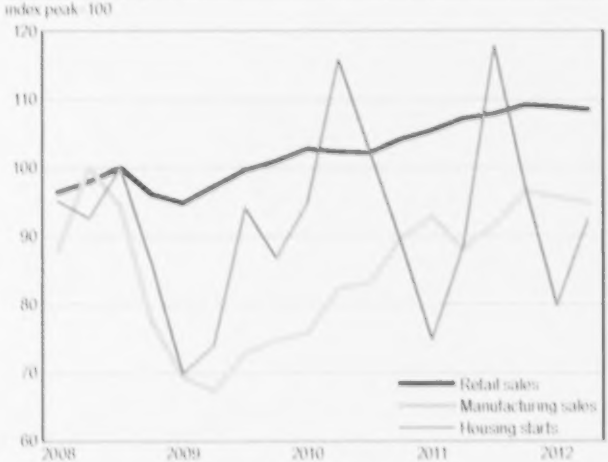
Manufacturing sales retreated in the Prairie provinces in the first two quarters of 2012, dampened by lower commodity prices for energy and minerals. Overall sales have not yet returned to the pre-recession high in the second quarter of 2008. Retail sales have made steady gains since late 2010, in tune with rising employment, particularly in Alberta, where almost 100,000 jobs were created in 2011. Ground-breaking on new homes in the second quarter of 2012 reached their pre-recession high, led by starts of multiple-family units in Alberta (Chart 18).

Chart 16
Quebec



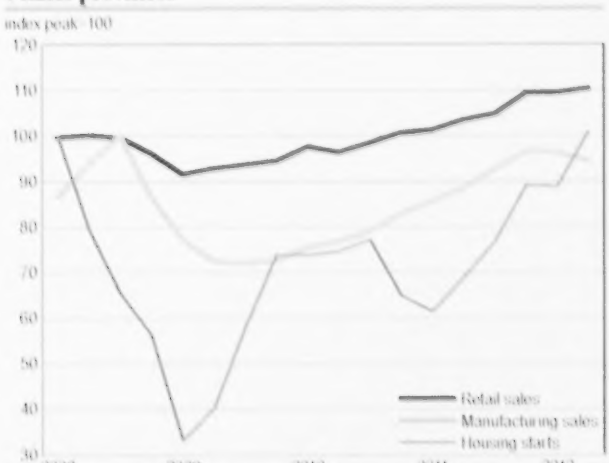
Source: Statistics Canada, CANSIM tables 080-0020, 304-0015, 027-0051.

Chart 17
Atlantic provinces



Source: Statistics Canada, CANSIM tables 080-0020, 304-0015, 027-0051.

Chart 18
Prairie provinces



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